INVESTIGATION OF

MANITOBA LOTTERIES CORPORATION

100-05568/

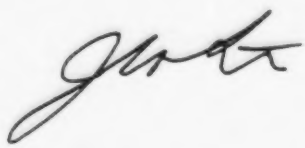
REFLECTIONS OF THE PROVINCIAL AUDITOR

The report on our investigation into allegations with respect to Manitoba Lotteries Corporation contains a number of troubling conclusions. The financial irregularities we encountered were primarily in the nature of inadequate policies and poor administrative practices. I would like to take this opportunity to express some of my personal thoughts on the investigation.

I believe that those of us charged with managing public monies owe a special duty of care to the citizens of Manitoba. I believe that most public servants would agree with this view. However, discharging this responsibility effectively is not an easy task. On one hand, public servants are being encouraged to be more entrepreneurial, to take greater risks and to accomplish more with less. On the other hand, the public continues to be vigilant in demanding accountability over the spending of public monies. There is little tolerance for "wasting" these funds, but there appears to be little consensus over the definition of "waste".

Some of the practices at Manitoba Lotteries Corporation, in my opinion, demonstrate a lack of attention to the special duty of care owed to the citizens of Manitoba by public sector boards and managers. However, Manitoba Lotteries Corporation has successfully met its mandate of being an important source of revenue to the Government and providing an entertainment option to citizens. I believe it is essential for the Corporation to move vigorously to address the deficiencies identified in our report. By doing so, the Corporation will be able to restore public confidence in the level of accountability it provides to the citizens.

I would like to thank the many people who came forward during our investigation to assist us. For some of these individuals, I believe that coming forward was a courageous act. I would also like to thank the executives of the Corporation for their cooperation.



Jon W. Singleton, CA, CISA

PURPOSE AND SCOPE OF INVESTIGATION

As a result of numerous allegations from current and former employees of the Manitoba Lotteries Corporation (MLC), regarding inappropriate spending at MLC, the Provincial Auditor decided to conduct an investigation. The allegations we decided to investigate involved the areas of casino consolidation, executive travel and entertainment, executive vehicles and corporate promotions. The investigation was conducted to assess the validity of the allegations. This report summarizes the findings and conclusions of the investigation team.

Our authority for this investigation is contained in both the Provincial Auditors Act (PA Act) and the Manitoba Lotteries Corporation Act (MLC Act). Section 17(2) of the PA Act says,

> *"The Provincial Auditor may request an agency of the government to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in the opinion of the Provincial Auditor, necessary to enable him to fulfil his responsibilities as auditor of the accounts of the government".*

Section 25(2) of the MLC Act says,

> *"...the Provincial Auditor may at any time order an audit of or investigation into the accounts or affairs of the corporation...".*

Our investigation was conducted from February to May of the year 2000 and included extensive interviews, detailed review and analysis of supporting documentation and independent confirmation of transactions, as we considered necessary. The scope of the work varies in each area of investigation, as we deemed appropriate in the circumstances.

During our investigation, we interviewed senior management and a former Board member, as well as several other current and former employees of MLC. The former Chair of the Board declined to be interviewed.

SUMMARY CONCLUSIONS

MLC is a Crown corporation created for the benefit of the citizens of Manitoba. As such, its assets and profits accrue to the benefit of Manitobans. During our review of the Casino Consolidation Project, we noted comments in the records of the Corporation that suggested public funds were not affected by the costs of this Project. We do not agree with this proposition.

Public disclosures of casino consolidation costs were incomplete and misleading. MLC should have taken greater care to ensure that media information included full disclosure of the scope of capital plans and use of public funds.

In addition, we concluded that the policies were inadequate and the controls ineffective with respect to the administration of executive vehicle leases, executive travel and entertainment and items purchased for corporate promotions.

CASINO CONSOLIDATION PROJECT

THE ALLEGATIONS

We received the following allegations with respect to the recently completed Casino Consolidation Project:

- The cost of the project was much higher than had been publicly disclosed
- The cost of the project was much higher than originally planned
- Certain costs of the project had been recorded as expenses rather than being capitalized as part of the project costs

THE SCOPE OF OUR INVESTIGATION

We limited our investigation in this area to interviews and a review of preliminary proposals, project approvals and MLC accounting records regarding capital expenditures. We did not audit the capital balances disclosed in MLC records.

FINDINGS

To address concerns regarding declining revenues and an expiring lease for the Crystal Casino, MLC proposed in June 1996 to expand two other casinos which it owns, Club Regent and McPhillips Street Station. The goal of these expansions was to ensure the long-term viability of Manitoba casino sites as tourist destinations, maintain the facilities' existing market share, attract tourism and encourage Manitobans to stay in Manitoba for gaming activities.

This proposal was portrayed as a comprehensive expansion and renovation project that would include expanding both of these facilities as well as enhancing the entertainment experience of the patrons. This proposal included several elements of a business plan and projected total costs of approximately $50 million.

In May 1997, the Government officially announced an initiative to consolidate the Crystal Casino with existing facilities at a cost of $50 million. This announcement included enhancements to the existing facilities and indicated,

> *"that food, licensed beverage services and entertainment should be part of the enhanced facilities",*

and

"to accommodate these additional services, along with the table games that will be transferred from the Crystal Casino, renovations of approximately $25 million for each site will be undertaken, with completion expected prior to the 1999 Pan Am Games".

The intended scope of the project referred to in this government announcement was not clear. However, MLC officials have advised us that the "renovation" related only to building construction costs and that they have characterized this initiative as a consolidation project.

On November 20, 1997, the Board of MLC approved "the Casino Consolidation Project budget of $55 million plus taxes". On October 20, 1998, the Board approved an increase to the budget of $11 million plus taxes. These approvals relate to the construction components of the project. The final budget for construction costs related to casino consolidation amounted to $76.5 million including taxes of $10.5 million.

Also in November 1997, the external project manager who was hired to manage the casino project prepared a project implementation plan. This plan included amounts for construction costs to expand the existing facilities, as well as for office renovations, stage additions, air quality improvements, the Millennium Theatre at McPhillips Street Station and a new front facade at Club Regent. The base budget for the implementation plan was set at $92.5 million. Subsequent to the implementation plan, the external project manager processed project change orders for $22.1 million. We were advised that a business plan supporting these higher levels of expenditure and analyzing potential impacts on overall operations of the Corporation was not prepared.

During 1998 and 1999 MLC was involved in negotiations with the Federal government with respect to the implications of Goods and Services Tax on the gaming industry. Taxes are a very significant component of capital costs. The tax impact on the Board approved construction costs of $55 and $11 million is over $10 million. Information provided to the media in 1998 and 1999 disclosed only the pre-tax amounts regarding budget approvals for construction costs.

The table below sets out the approved budget and capital costs incurred by MLC regarding the Casino Consolidation Project. This table includes the direct casino construction costs, as well as the costs of three other capital projects directly related to the Casino Consolidation Project. Taxes are included for all items.

	Approved Budget	Cost
	(in millions)	
Capital costs disclosed by MLC in March, 2000:		
Direct casino construction costs	$ 76.5	$ 84.8
Land and road relocation	2.3	2.6
Millennium Theatre	6.3	9.2
Equipment	14.8	15.9
	$ 99.9	$112.5

It is important to note that there were other MLC capital projects undertaken during the period of casino consolidation. These are not reflected in the above table.

Because MLC has arranged commercial financing for all capital projects of the Corporation, there are suggestions in MLC records that public funds were not affected by the costs of the Casino Consolidation Project. In the Board minutes of March 17, 1998, we were surprised by the following comments, which were made in the context of the status of the Casino Consolidation Project. The Board minutes state,

> *"There is, however, a need to get the message out re private sector funding, not taxpayers' dollars."*

Also, in the original June 1996 proposal document prepared by MLC, it states,

> *"And, as the MLC is financing the entire project through the Royal Bank of Canada ..... it's not taxpayers' money!"*

At the time of our investigation, long-term debt had grown to $170 million, whereas prior to the expansion, it was less than $55 million. No plans were available to show how this loan will be repaid.

During their audit for the year ended March 31, 1999, the external auditors did not identify any significant capital expenditures that were incorrectly recorded as operating costs. Also, during our review of maintenance costs from April 1999 to February 2000, we did not identify any capital items that had been incorrectly recorded.

CONCLUSIONS

MLC is a Crown corporation created for the benefit of the citizens of Manitoba. As such, its assets and profits accrue to the benefit of Manitobans. We do not agree with the proposition in the records of the Corporation, that public funds were not affected by the costs of the Casino Consolidation Project.

Public disclosures of the costs of the Casino Consolidation Project were incomplete and misleading, and the scope of the project was not clearly defined or communicated. In our view, piecemeal disclosure of capital plans increases the risk of confusing the public regarding capital activities of the Corporation.

Capital costs related to the construction component of the Casino Consolidation Project exceeded budget approvals by $8.3 million ($84.8 less $76.5).

Increasing corporate debt by over $115 million without a plan in place to show how the renovations would finance this debt is inappropriate.

The capital costs have been appropriately recorded in the records of the Corporation.

RECOMMENDATIONS

- MLC should publicly disclose its operating and capital budgets in its annual report. Segmented reporting of the capital costs of each casino should be considered.
- The Board of MLC should arrange for a post-expansion review of casino operations and consider the impact of all capital expenditures and long-term debt on future cash flows and profit levels of the Corporation.
- The Board of MLC should arrange for an assessment of the current loan arrangements with the bank with a view to determining the most cost effective way to manage and pay off this debt. This should include determining whether it would be more cost effective to finance the loan with the Province of Manitoba.

EXECUTIVE TRAVEL AND ENTERTAINMENT COSTS

THE ALLEGATIONS

We received the following allegations with respect to executive travel and entertainment costs:

- Some of the expenses claimed by the executives were of a personal nature
- Many of the business expenses incurred by the executives were extravagant
- Supporting documentation for executive expense accounts was not provided to the accounting department
- Significant airline rewards were being accumulated and used for personal purposes

THE SCOPE OF OUR INVESTIGATION

We examined the expense account claims for the President, Vice-Presidents and several senior managers for the 9 month period from April 1, 1999 to December 31, 1999. These expenses amounted to $224,490.

The criteria we used to assess the allegations are as follows:

- The Corporation's documented policies on travel expenses, entertainment and airline rewards should be followed (see Appendix A)
- Procedures should be in place to ensure compliance with corporate policies

Whether a particular expenditure is extravagant is a subjective matter. In lieu of making a determination as to whether expenditures were extravagant, we have compared certain items to MLC's documented policy guidelines, to other Crown corporations and to the Government's General Manual of Administration. While the latter two items are not binding on MLC, they do provide a framework within which the Board can review the appropriateness of MLC policies and practices. On the other hand, the President advised us that he supported a liberal travel and entertainment expense practice, as a reward for extraordinary efforts by the executives.

At the outset of our investigation, we were surprised to find that MLC had adopted a practice of not retaining supporting documentation for executive expense claims. (Certain executives, however, had retained their receipts in

separate files.) We were advised that this practice was initiated on direction from the President. As a result, the scope of our investigation was limited and we were unable to investigate these expenses to the extent we believe appropriate. We advised the Chair of this practice as soon as it came to our attention. The Chair subsequently issued instructions to the Acting President to end this practice and to comply with the existing documented corporate policy.

During our investigation, those executives who had retained their receipts in separate files provided them for our review. In addition, we asked the executives to contact some of the hotels where they had stayed to obtain copies of their hotel bills for our review. We subsequently received 10 of the 14 hotel bills that we requested. We also contacted the Corporation's travel agency directly to obtain additional supporting documentation for transactions included in our investigation.

FINDINGS

The summary below shows the extent of unsupported payments at the end of our investigation. Unsupported payments include instances in which no receipt was provided and instances in which the receipts provided inadequate information. In our opinion, credit card statements do not provide adequate documentation of expenditures.

	Amount Paid	Amount Unsupported	%
Transportation	$114,942	$ 12,972	11%
Entertainment	49,298	44,655	91%
Hotel charges	46,886	22,060	47%
Miscellaneous supplies, gifts, dues	13,364	8,355	63%
Totals	**$224,490**	**$ 88,042**	**39%**

We identified several claims for minor items that were of a personal nature and others where we were not able to clearly determine the appropriateness of the item. Details of these will be provided to the Chair of the Board for further review.

During our investigation, we examined the costs incurred during 1998 and 1999 relative to a gaming conference that is held in Las Vegas each year. Attendance at each conference was approved and documented on MLC travel authorization forms (T/A's). In 1998, the Corporation approved the attendance of eight executives at an estimated cost of $3,200 each or $25,600 in total, and

in 1999, nine executives were approved at an estimated cost of $3,000 each or $27,000 in total. The conference in 1998 involved 4 nights of accommodation and 1999 involved 3 nights. The total costs incurred for each of these conferences significantly exceeded the estimated levels. We were advised by some executives that the estimates recorded on the T/A forms were not intended to provide any restriction over the level of expenditure on these trips. The costs for these trips are summarized below:

	1998	1999
Registration	$ 5,280	$ 4,895
Hotel	10,671	6,636
Meals and entertainment (no receipts)	9,370	9,320
Car rental and taxis	1,201	2,558
Airfare	17,660	33,676
Total	**$44,182**	**$57,085**
Recoveries from Executives	nil	(4,832)
Net cost to Corporation	44,182	52,253
Estimate from T/A forms	25,600	27,000
Amount in excess of T/A estimate	**$18,582**	**$25,253**

In November 1999, recoveries of $4,832 were made at the request of the President. There were no recoveries initiated for 1998 or any prior trips.

Business class travel is used to a greater extent than appears to be contemplated by MLC's documented policy requiring the most economical method of travel. The Corporation does not have a documented policy regarding the use of business class airfare.

While provincial guidelines are not binding on the Corporation, they provide that a Minister or Deputy Minister (and equivalents) and accompanying persons may travel business class. In the absence of a clear MLC documented policy on business class travel, we compared current MLC practice with the provincial guidelines. We identified 22 instances, or 61% of our sample, where business class airfare was purchased relative to trips not involving the President. In addition, the Corporation purchased business class airfare for the President and six Vice-Presidents attending the 1999 Las Vegas conference (1998 - eight executives). The President advised us that he had authorized the Corporation's practice with respect to business class travel.

During our investigation, we determined that the Corporation does not maintain records to monitor compliance with its documented airline promotion policy. We further noted that this policy does not deal with airline rewards accumulated through the use of corporate credit cards. In 1999 the executives earned an aggregate of 400,567 airline reward points through the use of corporate credit cards, with one executive earning 177,133 airline reward points.

Because it was not practical to distinguish airline rewards earned from business activities from rewards earned from personal activities, we did not attempt to assess whether airline rewards were inappropriately used. However, some of the executives we interviewed indicated that they had used airline rewards earned from business activities for personal purposes. The President advised us that he had authorized the practice of using airline rewards for personal purposes.

The process in place for paying executive expense accounts is administered differently than all other accounting transactions. Each executive initiates his/her own expense claim which is forwarded to the Administrative Officer of the Finance and Administrative Division for processing. The expense claim forms forwarded to the President for approval were supported primarily with credit card statements. However, some executives retained their receipts in separate files. A cheque requisition is then prepared and approved by the Vice-President, Finance and Administration. No documentation, other than the summary totals of all executive expense claims, are provided to the Corporate Controller's department to support the payments.

We noted that the Board had not been provided with meaningful information on executive expense claims or entertainment expenses.

Section 6(1) of the Crown Corporations Public Review and Accountability Act indicates that:

> *"The council shall .... ensure consistent practices among two or more corporations where appropriate...."*

CONCLUSIONS

The practice of not obtaining and retaining supporting documentation for executive expense accounts is clearly inappropriate. It indicates a lack of due care over the management of public monies.

Controls over entertainment expenses are essentially nonexistent.

The lack of control over expenses contributed to the Corporation incurring some minor expenses on behalf of the executives that were of a personal nature. Given the lack of documentation we were unable to determine whether there were other expenses of a personal nature claimed by executives.

In our view, there was little or no attempt to constrain the costs incurred on the Las Vegas trips and stay within the estimated levels of expenditure. In 1999 the airfare alone exceeds the estimated levels.

In the absence of a documented policy on business class travel, it is difficult to assess MLC's practices. It is not uncommon to provide the right to travel business class to certain individuals in the public sector.

Business class travel can be a useful perquisite to provide to executives, especially in circumstances where mandated salary levels make it difficult to recruit. The Board needs to consider the extent to which it believes access to business class travel should be permitted and adopt a documented policy accordingly.

Those executives who told us that they used airline rewards earned for business activities for personal benefit have clearly not been following the documented corporate policy. However, they were following the practice authorized by the President.

With respect to the personal use of airline rewards, some organizations have developed a philosophy, that supports personal use of the airline rewards earned because an employee is giving up personal time or is required to be away from their family. In any case, one needs to be practical in any policy developed. Recognizing the numerous ways in which individuals can earn airline rewards today, the policy should focus on major items and be relatively simple to administer.

The role of the Corporate Controller's department in ensuring that expenditures of the Corporation are for bona fide business purposes and appropriately supported was weakened by the process followed for paying executive expense accounts and credit card charges.

Effective procedures are not in place to ensure compliance with corporate policies.

RECOMMENDATIONS

- The Board of MLC should consider whether it would be appropriate to review executive expense account claims from prior periods that were not included in our investigation. In addition, the Board should consider whether it would be appropriate to initiate recovery of payments to executives for any personal or other expenses without a clear business purpose.

- The Board of MLC should clarify, in cooperation with Crown Corporations Council, the corporate policy for expense accounts, entertainment, and use of airline rewards, and develop an appropriate policy for business class travel. The aim should be to ensure that these policies reflect a prudent use of public monies and a respect for employees who are required to travel on personal time, away from their families.

- After the Corporation has revised its policies, the Board of MLC should involve the Internal Auditor in a review of the accounting procedures to ensure that controls are adequate regarding travel and entertainment expenses.

- The Board should establish an independent reporting process that captures all travel and entertainment related costs on a summarized basis for periodic review by the Board. We suggest the Board consider having these reports periodically audited by the Internal Auditor.

EXECUTIVE VEHICLES

THE ALLEGATIONS

We received the following allegations with respect to executive vehicles:

- Some executives purchased vehicles leased by MLC for nominal amounts without appropriate authorization
- Significant repair costs were incurred by MLC shortly before being purchased by executives
- Some of the vehicles leased by executives at MLC expense were extravagant

THE SCOPE OF OUR INVESTIGATION

We reviewed the terms and conditions of all executive vehicle leases currently in force. We also reviewed the disposition of all vehicles under previous MLC lease contracts. The criteria we used to assess these allegations are as follows:

- The terms of the employment contract between the President and the Province of Manitoba should be adhered to. This contract provides for,

  "...an automobile or an allowance in accordance with the policy applicable to Deputy Ministers....".

- The corporate policy over leased vehicles should be designed to provide reasonable control over the level of benefit provided to executives.
- Corporate authority should be provided for employees purchasing leased vehicles at the end of the lease term. Such vehicles should be purchased at fair market value unless an employment contract or corporate policy indicates otherwise.
- When lease arrangements transfer substantially all of the benefits and risks of ownership to the Corporation, the lease should be recorded in the accounting records of the Corporation as a capital lease. In these situations the vehicle should be recorded as an asset of the Corporation and the amounts payable should be shown as an obligation of the Corporation to the leasing company.
- The costs of operating a leased vehicle should be supported with receipts and appropriately monitored to ensure compliance with operating standards established by the Corporation.

With respect to whether the vehicles leased were extravagant, we have limited our assessment to comparing the values of MLC leased vehicles to government policy.

We contacted the Corporation's leasing company directly to obtain additional supporting documentation and clarification for transactions included in our investigation.

FINDINGS

The contract with the President and CEO indicates that he is entitled to a vehicle equivalent to that to which a Deputy Minister is entitled. Current guidelines for Deputy Minister vehicles call for a purchase price limit of $27,000. The cost of the vehicle currently leased for the President and CEO is $32,000 as indicated by the leasing company.

The current corporate policy on the leasing of corporate vehicles spells out a maximum monthly lease payment amount for the President and CEO and Vice-Presidents. These limits are $975 for the President and $700 for the Vice-Presidents. All lease arrangements were consistent with the policy. However, the policy does not place any restrictions on deposits, prepayments or vehicle options and does not provide any limitations on the capital cost of the vehicle, the length of each lease or on extensions and renewals. The policy does not address vehicle ownership at the end of the lease term or deal with residual values of leases and executive buy-out options.

Two executives arranged either directly or indirectly for the purchase of MLC leased vehicles at the end of the lease for amounts significantly below market value and for use by their spouses. We asked Manitoba Public Insurance to provide us with the approximate retail value of these vehicles. One vehicle had an approximate retail value (excluding taxes) of $16,049 and was purchased by the executive for $456. The other vehicle had an approximate retail value (excluding taxes) of $14,735 and was purchased for $1. We have found no corporate authorization for these transactions. No taxable benefit was reported to Canada Customs and Revenue Agency (CCRA) with respect to these transactions.

Significant repairs were made to the vehicles at MLC expense shortly before the expiration of the lease. In one case, repair costs of $5,593 were charged in December 1996 and January 1997. The executive then purchased the vehicle in January 1997. In the other case, repair costs of $2,484 were charged two months prior to the expiration of the lease and the executive purchasing the vehicle.

Executive vehicles under capital lease arrangements are not recorded in MLC records as capital assets. They should have been so recorded. The Canadian

Institute of Chartered Accountants (CICA) provides clear guidance regarding the accounting treatment of lease transactions in order to comply with generally accepted accounting principles (GAAP). Section 3065 of the CICA handbook provides definitions that distinguish between capital and operating leases and outlines criteria for applying the definitions in order to comply with GAAP (see Appendix B).

We found that no attempt was made to manage the operating costs of the leased vehicles. We did an analysis of the gasoline costs associated with these vehicles and found that in several instances, the costs exceeded standard consumption (for city use) by a considerable margin. We determined standard consumption by referring to the ratings provided by Natural Resources Canada. The variances from standard consumption ranged from an underconsumption of 7% to an overconsumption of 84%.

In addition, we found that $14,177 or 39% of the operating costs of these vehicles were supported only by a monthly credit card statement.

CONCLUSIONS

While the vehicle leased for the President exceeds the value provided for in the contract of employment, it is consistent with the policy adopted by the Board of Directors. Neither the employment contract nor the Board policy indicates which one should take precedence. This makes it difficult to assess the appropriateness of the arrangements.

The current policy with respect to leasing vehicles for executives is ineffective in controlling the value of the benefit to the executives. This policy is of limited utility because it does not address a number of other significant variables to ensure that benefits received by the executives are controlled and equitable. The limitations of MLC's policy is amply demonstrated by the fact that the vehicles leased by MLC executives range in value from $28,500 to $49,000. All of these values are higher than that specified in the President's employment contract and that specified for Deputy Ministers.

We believe it was inappropriate for two executives to arrange directly or indirectly for the purchase of MLC leased vehicles for personal use by their spouses, at amounts significantly below market value without corporate authority. Further, we believe that an unreported taxable benefit may have been incurred.

We believe that making major repairs to a leased vehicle shortly before a lease expires, unless there is clear evidence that such repairs are required under the terms of the lease agreement, is an inappropriate use of public money.

The operating costs of leased vehicles are not effectively managed.

The President's employment contract is a contract between the President and the Province of Manitoba. Such an arrangement can contribute to ambiguity in the relationship between the Board of Directors and the President. It suggests that the President is primarily accountable to the Province rather than the Board of Directors. In our opinion, it is generally preferable for such employment contracts to be between the Board of Directors and the President.

RECOMMENDATIONS

- The Board of MLC should take steps to resolve the conflict between the President's employment contract and its policy on the leasing of executive vehicles.
- The Board of MLC should develop a comprehensive policy for providing corporate vehicles to executives. The policy should be designed to ensure equity and provide reasonable control over the value of the benefit provided to the executives. One test of reasonableness is that the value provided to Vice-Presidents should normally be less than that provided to the President.
- The Board of MLC should seek legal advice on the appropriateness of the purchase of the leased vehicles at significantly less than retail value without corporate authority. The Board should also seek tax advice to ensure that appropriate taxable benefits with respect to these transactions have been reported to CCRA.
- The Board of MLC should arrange for an effective process to be developed to monitor the operating costs of leased vehicles. We suggest that Fleet Vehicles Agency be consulted in the development of this process.
- Capital leases of executive vehicles should be recorded in accordance with generally accepted accounting principles.
- The Board of Directors should arrange for future employment contracts with the President and CEO.

CORPORATE PROMOTIONS

THE ALLEGATIONS

We received the following allegations with respect to this area:

- Event tickets for major concerts and season tickets for professional sports teams are frequently used for the personal benefit of favoured individuals in the Corporation
- $18,000 worth of golf equipment purchased in 1997 was used for the personal benefit of certain executives
- The controls over items purchased for corporate promotions were weak

THE SCOPE OF OUR INVESTIGATION

The criteria we used to assess these allegations are as follows:

- Use of event tickets and other items such as golf equipment purchased for corporate promotions should be supported by a corporate marketing plan
- There should be meaningful criteria for the distribution of event tickets and other items, such as golf equipment, to employees

FINDINGS

We found that the Corporation had purchased, for use and distribution across all divisions of MLC, a combined total of 150 season tickets for the Winnipeg Blue Bombers, Winnipeg Goldeyes and Manitoba Moose franchises in 1999/2000. We also found that the Corporation had purchased a combined total of 340 tickets for concerts by Shania Twain, Elton John and Ricky Martin. These tickets were intended to be used as prizes, promotional items and employee recognition awards.

There is no policy governing the distribution of any of these tickets to employees.

Concerning tickets retained at head office for executive use and distribution, we were advised that check-off sheets were used to ensure all tickets got distributed. However, these check-off sheets were not retained in MLC files for future reference or audit purposes.

Prior to January 2000, records tracking the distribution of tickets by each casino to MLC customers as prizes or for the personal use of casino employees were inadequate. Subsequently, distribution records have been improved at the casinos to provide adequate documentation of the distribution of tickets.

We found that adequate records are maintained regarding tickets distributed through the Video Lotto Division.

In June 1997, MLC purchased various items of golf equipment for over $18,000. MLC officials advised us that this golf equipment was used for prizes at golf tournaments sponsored by MLC, and that several items still remained in inventory. However, distribution records do not provide adequate descriptions of prizes awarded and of items remaining in inventory to link back to the original purchase order.

We selected a number of golf equipment purchases from 1999 and traced these to casino promotional records or to the inventory records. All items we selected from 1999 were adequately recorded.

CONCLUSIONS

There was essentially no control over the distribution of event tickets by head office and the casinos. This is clearly inappropriate. It exposes the Corporation to a significant risk that items purchased for business purposes may, in fact, be used inappropriately for the personal benefit of employees.

Because of deficiencies in the records, we were unable to determine the distribution of some of the golf equipment purchased in 1997 for over $18,000. However, one executive advised us that executives and staff utilized golf clubs on occasion at corporate sponsored events over the past few years. He advised that these clubs were either given out as prizes or returned to the Corporation. Another executive indicated that golf clubs were sometimes tested by an executive to make sure they were of adequate quality. Controls over golf equipment purchases in 1999 were adequate.

It is important to establish strong controls over all promotional items, especially high value items.

RECOMMENDATIONS

- The Board should direct management to develop a current marketing plan that defines clear strategies and provides clear guidelines for all corporate sponsorship activities of MLC. The Board may wish to seek guidance from the Government on this issue.

- The Board should re-evaluate the practice of providing event tickets to employees. If the practice is to be continued, management should develop appropriate criteria compatible with other employee recognition policies of MLC and establish appropriate controls to monitor employee participation.

APPENDIX A

A - 20

MANITOBA LOTTERIES FOUNDATION
POLICY MANUAL

SUBJECT: AIRLINE PROMOTIONS

1. POLICY

1.1 Employees who earn benefits from airlines accumulated as a result of travelling on government business, will only utilize such benefits while on government business.

1.2 Violation of this policy will result in disciplinary action.

2. APPLICABILITY

2.1 All Manitoba Lotteries Foundation staff.

APPENDIX A (CONT'D)

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MANITOBA LOTTERIES FOUNDATION
POLICY MANUAL

SUBJECT: EMPLOYEES IN TRAVEL STATUS

1. POLICY

1.1 Approval for out-of-town travel is required as follows:

a) Away from home base - Supervisor/Director
b) Out-of-Manitoba - General Manager,
c) Out-of-Canada/U.S.A. - Minister Responsible for Lotteries

1.2 Travel arrangements can be booked well in advance to take advantage of reduced rates.

a) Only when there is a net cost saving to M.L.F.., will employees be permitted to stay additional days to benefit from lower rates.

1.3 Dependant upon availability, M.L.F. employees will stay at hotels which provide discount rates to government employees travelling on business.

1.4 The General Manager must be notified in all instances where a spouse or second party who is not on M.L.F. business will accompany the employee.

a) The M.L.F. will only reimburse expenses incurred by the employee.
b) The M.L.F. will reimburse the accommodation on a single occupancy rate and only that rate must be shown on the employee's expense account.

1.5 Manitoba Lotteries Foundation employees who are eligible, may claim the actual cost of purchased meals up to the maximum amounts allowed under the General Manual of Administration – AE-25-03 Appendix "A" and PA-30-25 Paragraph 3.3.4.

1.6 Manitoba Lotteries Foundation employees travelling out of province may claim the actual cost of meals in excess of the maximum amounts allowed under the General Manual of Administration provided that:

a) The M.L.F. deems that the amount claimed is reasonable.
b) No alcoholic beverages are included in the claim.
c) Receipts are provided for the meals claimed.

1.7 Other miscellaneous expenses incurred during travel status, must be consistent with those outlined in the General Manual of Administration – AE-25-06.

APPENDIX A (CONT'D)

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SUBJECT: EMPLOYEES IN TRAVEL STATUS (Continued)

2. APPLICABILITY

2.1 All Manitoba Lotteries Foundation staff in travel status.

APPENDIX A (CONT'D)

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MANITOBA LOTTERIES FOUNDATION
POLICY MANUAL

SUBJECT: EXPENSE CLAIMS - ENTERTAINMENT

1. POLICY

1.1 The General Manager and/or Directors may entertain business associates at their discretion.

1.2 All other employees must obtain their respective Director's approval prior to entertaining business associates.

1.3 All employees who entertain business associates should do so in a cost efficient manner.

1.4 The original receipt is required for reimbursement of expenses incurred. Duplicate receipt from credit card slip will be accepted:

a) Purpose of meeting, names and occupations of persons in attendance must be included.

1.5 Reimbursement will not be provided without prior approval of the General Manager for:

a) Entertainment of another employee;
b) Payment of another employee's meals while in travel status;
c) Alcoholic beverages;

2. APPLICABILITY

2.1 All Manitoba Lotteries Foundation staff.

APPENDIX A (CONT'D)

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MANITOBA LOTTERIES FOUNDATION
POLICY MANUAL

SUBJECT: EXPENSE CLAIMS - PARKING AND MISCELLANEOUS

1. POLICY

1.1 Manitoba Lotteries Foundation will reimburse only actual expenses accompanied by a receipt.

1.2 Claims for parking expenses other than meter parking must be substantiated by receipts:

a) Claims for meter parking will be paid if deemed reasonable. A daily record of meter parking should be kept.

1.3 Claims for telephone calls will be paid if deemed reasonable. A daily record should be kept.

1.4 Claims for business lunches will be paid provided that the employee's Director authorized the expense prior to the lunch taking place:

a) All claims for business lunches must be supported by receipts.
b) All claims must indicate the purpose of the meeting and the names of the persons in attendance.

1.5 Claims for expenses incurred as part of an employee's normal coffee break will not be paid.

2. APPLICABILITY

2.1 All Manitoba Lotteries Foundation staff.

APPENDIX B

EXCERPTS: CICA HANDBOOK, SECTION 3065

Definitions

.03 The following definitions have been adopted for purposes of this Section:

(a) Capital lease is a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

(d) Operating lease is a lease in which the lessor does not transfer substantially all the benefits and risks incident to ownership of property.

(e) Bargain purchase option is a provision allowing the lessee, at its option, to purchase the leased property for a price which is sufficiently lower than the expected fair value of the property, at the date the option becomes exercisable, that exercise of the option appears, at the inception of the lease, to be reasonably assured.

.06 From the point of view of a lessee, a lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:

(a) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.

(b) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property. This is due to the fact that new equipment, reflecting

later technology and in prime condition, may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear.

(c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value 1(1), at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

.09 A lease that transfers substantially all of the benefits and risks of ownership related to the leased property from the lessor to the lessee should be accounted for as a capital lease by the lessee and as a sales-type or direct financing lease by the lessor. [JAN. 1979]

.10 A lease where the benefits and risks of ownership related to the leased property are substantially retained by the lessor should be accounted for as an operating lease by the lessee and lessor. [JAN. 1979]

.15 The lessee should account for a capital lease as an asset and an obligation. [JAN. 1979]